

Message Text

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NODIS
EYES ONLY FOR THE AMBASSADOR

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJECT: US-JAPAN SWAP

1. ACTION: YOU SHOULD CALL ON PRIME MINISTER AND INDICATE TO HIM THAT UNDER SECRETARY SOLOMON, IN RECENT PHONE TALKS WITH MATSUKAWA, WAS REFLECTING VIEWS OF ADMINISTRATION AT THE HIGHEST LEVEL: WE ARE PREPARED TO ACTIVATE A U.S.- JAPAN SWAP PROVIDED THE TECHNICAL CONDITIONS CAN BE WORKED OUT, IF THE GOJ WILL TAKE EFFECTIVE MEASURES TO REDUCE JAPAN'S SURPLUS -- I.E., PROPOSE A 4 TRILLION YEN STIMULUS TO DIET AND REDUCE DISCOUNT RATE TO 2.5 PERCENT, WHILE ALSO FOLLOWING CONSTRUCTIVE POLICIES IN MTN. PLEASE STRESS TO FUKUDA THAT SOLOMON'S STATEMENT TO MATSUKAWA THAT A SWAP WITHOUT THESE JAPANESE ACTIONS WOULD NOT HAVE

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SUFFICIENT EFFECT ON THE EXCHANGE MARKETS TO BE WORTH ACTIVATING IS FIRM U.S. POSITION, THAT WE ARE CONVINCED 4 TRILLION YEN STIMULUS IS ESSENTIAL IF JAPAN'S SUMMIT COMMITMENT TO 7 PERCENT GROWTH IS TO BE FULFILLED, AND THAT WE BELIEVE CHANGE IN DISCOUNT RATE IS NEEDED TO INFLUENCE CAPITAL FLOWS. THESE VIEWS SHOULD BE COMMUNICATED TO FUKUDA AS A MATTER OF GREAT URGENCY AND HIGHEST

IMPORTANCE.

2. BACKGROUND: FOLLOWING INFORMATION IS FOR AMBASSADOR'S BACKGROUND: BUILDING ON MESSAGE FROM PRIME MINISTER FUKUDA WHICH WAS CONVEYED TO U.S. OFFICIALS THROUGH NISHIYAMA LAST WEEK, SOLOMON TELEPHONED NISHIYAMA TUESDAY NIGHT TO INDICATE A READINESS TO ENTER INTO DISCUSSIONS WITH THE JAPANESE ON THE CONDITIONS UNDER WHICH THE U.S. WOULD BE PREPARED TO ANNOUNCE READINESS TO INTERVENE IN YEN FOR U.S. ACCOUNT.

3. NISHIYAMA HAD SUGGESTED POSSIBLE READINESS OF THE JAPANESE TO PROPOSE SUPPLEMENTAL BUDGETARY MEASURES IN THE RANGE OF 4 TRILLION YEN AND TO LOWER THE DISCOUNT RATE BY 1 PERCENT. SOLOMON INDICATED THAT THESE ACTIONS WOULD HELP CREATE CLIMATE OF CONFIDENCE THAT JAPANESE SURPLUS WAS BEING APPROPRIATELY DEALT WITH, AND WOULD PROVIDE BASIS FOR U.S. TO COOPERATE WITH GOJ IN INTERVENING TO DEAL WITH MARKET DISORDER. SOLOMON DID NOT SPECIFY TRADE MEASURES WHICH MIGHT ALSO BE TAKEN BY GOJ BUT DID SAY THAT SUCH MEASURES WOULD ADD TO CREDIBILITY OF PROGRAM.

4. SOLOMON'S MESSAGE WAS COMMUNICATED TO FUKUDA WHO THEN DESIGNATED MATSUKAWA TO CARRY ON NEGOTIATIONS ON BEHALF OF THE JAPANESE. TIMING HAS BECOME OF EXTREME
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IMPORTANCE BECAUSE OF DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKETS AND U.S. DESIRE TO ANNOUNCE ACTIONS TO DEAL WITH THIS SITUATION AT EARLIEST FEASIBLE DATE. IN TELEPHONE CONVERSATIONS LAST NIGHT AND THIS MORNING, HOWEVER, MATSUKAWA MADE CLEAR THAT FUKUDA COULD MAKE NO PROMISES CONCERNING THE SIZE OF THE SUPPLEMENTAL BUDGET PRIOR TO THE CABINET MEETING SCHEDULED FOR SEPTEMBER 2. HE ALSO SAID THAT THE LOWERING OF THE DISCOUNT RATE WOULD BE EXTREMELY DIFFICULT SINCE IT WOULD BRING THE RATE BELOW THE INTEREST RATES OFFERED BY THE POSTAL SAVINGS SYSTEM. MATSUKAWA SAID THAT THE POSTAL SAVINGS RATE WAS UNDER CONTROL OF A GROUP DOMINATED BY CONSUMER INTERESTS WHO WOULD NOT WISH TO REDUCE THE RATE PAID ON SUCH SAVINGS.

5. SOLOMON TOLD MATSUKAWA THAT THE U.S. COULD NOT (REPEAT NOT) PROCEED WITH ACTIONS SIGNALING A U.S. READINESS TO INTERVENE IN YEN IN THE ABSENCE OF JAPANESE COMMITMENTS ON THE SATISFACTORY SUPPLEMENTAL BUDGET AND DISCOUNT RATE CUT. WE THEREFORE WILL DELAY ANY U.S. ACTION OR ANNOUNCEMENT INDICATING POSSIBILITY OF INTERVENTION ACTIVITIES PENDING ASSESSMENT OF GOJ

FISCAL MEASURES AFTER SEPTEMBER 2.

6. AS YOU WILL APPRECIATE, THE FACT THAT THESE
DISCUSSIONS ARE TAKING PLACE AS WELL AS THE SUBSTANCE
OF THE DISCUSSIONS IS BEING HELD EXTREMELY CLOSELY. VANCE

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NNN

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